HAWK ENERGY CORP.

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Hawk Announces 2004 Results and 2005 Outlook

Hawk Energy Corp. ("Hawk" or "the Company") is pleased to announce its operating and financial results for the year ending December 31, 2004, and to provide guidance with respect to the Company's 2005 activities. Hawk has experienced rapid growth this past year and has accomplished the following:

- Increased production over 2003 by 649% and exited the year with production of 1,675 boe/d, exceeding its targeted exit rate of 1,400 boe/d;
- Generated cash flow of $7,616,522 ($0.50 per diluted share) and net income of $2,507,713 ($0.17 per diluted share);
- Added 2,450 mboe of Proven reserves through drilling and optimization, at a Proved Finding and Development (F&D) cost of $9.47 per boe (including future capital), resulting in a Proved recycle ratio of 2.3 to 1;
- Added 3,839 mboe of Proven plus Probable reserves through drilling and optimization, at a Proved plus Probable F&D cost of $6.96 per boe (including future capital), resulting in a Proved plus Probable recycle ratio of 3.1 to 1;
- Increased its Proved reserve base (working interest, before royalties) to 4,202 mboe which is forecast to generate a Net Present Value, discounted at 10% before tax, of $57.6 million;
- Increased its Proved plus Probable reserve base (working interest, before royalties) to 6,079 mboe which is forecast to generate a Net Present Value, discounted at 10% before tax, of $75.0 million;
- Drilled 40 (32.8 net) wells, 75% of which were classified as exploration, resulting in 28 (21.4 net) producers for an overall success rate of 70% in 2004;
- Discovered 14 new gas pools and 3 new oil pools;
- Divested 70 boe/d of high operating cost southeast Saskatchewan production;
- Assembled a drilling inventory in excess of 25 high quality exploration and development prospects that will provide a strong platform for continued growth in 2005 and beyond.

2004 Operational Review

Hawk's business strategy is to profitably grow the Company on a per share basis by focusing on cash flow. We accomplish this by targeting high netback production in low-cost areas. These areas are characterized by year-round access, available existing infrastructure, moderate drilling depths, affordable land costs and in-house technical knowledge.
Hawk's exploration activities have been focused on generating a diverse and technically sound inventory of drilling opportunities with multi-zone potential. The Company has concentrated its exploration efforts in

southern and central Alberta, where high-quality reserves and strong initial production rates can be attained at reasonable costs.

During 2004, Hawk has had continued success drilling high working interest exploration wells. The Company drilled 40 (32.8 net) wells, 75% of which were classified as exploration, resulting in 28 (21.4 net) wells capable of production. This represents an overall success rate of 70%. Hawk has continued to focus its efforts in southern and central Alberta and in southeast Saskatchewan. In 2004, the Company drilled the following wells in its core areas:

Retlaw, Alberta (94% Avg. WI): The Company drilled nine (8.5 net) wells in the Retlaw area resulting in five (4.5 net) wells capable of producing natural gas and one (1.0 net) producing oil well. Current net gas production at Retlaw is 3,300 mcf/d. One (0.5 net) gas well remains to be tied in. The one oil well is producing at a rate of 35 bopd. Additional drilling is planned on this oil discovery in the second quarter. Hawk is continuing to build its land inventory in this multi-zone area.

Edmonton, Alberta (50% Avg. WI): Hawk drilled 13 (8.14 net) gas tests in this area resulting in 10 (5.64 net) wells that are capable of gas production. Seven (3.64 net) of these wells will be on production by the end of the first quarter of 2005 with the remaining three to be brought on-stream in the second quarter. Before tieing in these seven wells the Company is producing a net 2,200 mcf/d in the Edmonton area. Discoveries made by Hawk in this area are notable for their long life reserves.

Veteran, Alberta (95% Avg. WI): The Company drilled eight (7.8 net) wells at Veteran and cased five (3.9 net) for production. Current natural gas production is 2,400 mcf/d net from a new gas pool discovery. A new oil pool discovery is presently producing 60 bopd of light oil and will be further developed in the second quarter of 2005.

Chinook, Alberta (100% WI): Hawk is excited about an evolving play in southeast Alberta in a multi-zone, natural gas prospective area. One (1.0 net) well was cased for natural gas potential in late 2004 and will be evaluated during the second quarter of 2005. The Company continues to evaluate the 1,700 kilometers of 2D seismic data it acquired in 2004 and has plans for additional drilling during the summer. Thus far, Hawk has acquired 11 sections of prospective crown land.

Southeast Saskatchewan (72% Avg. WI): Hawk is continuing to optimize its five high working interest, core properties in this region. The Company also drilled two (1.1 net) horizontal wells in this area and has plans for an additional two horizontal wells and one vertical well in 2005. At present Hawk is producing in excess of 420 boepd, net of the 70 boepd of non-core assets from this region which were divested in 2004.

2004 Reserves

The reserves of the Company were evaluated by Gilbert Laustsen Jung Associates Ltd. ("GLJ'), as at December 31, 2004. Utilizing the methodology and definitions set out in National Instrument 51-101 and converting gas to barrels of oil equivalent at 6 mcf to 1 boe, Hawk's December 31, 2004 reserves are as follows:

	Company Interest Reserves Before Royalty				Before Tax Present Value of Future Net Revenues (000's) Discounted at		
	Oil (mbbls)	Gas (mmcf)	NGL's (mbbls)	BOE's (mboe's)	0%	10%	15%
Proved Producing	1,238	7,753	22	2,551	45,620	33,890	30,358
Proved Non-Producing	133	5,293	131	1,146	25,567	17,253	15,037
Proved Undeveloped	317	1,128	0	505	9,628	6,491	5,518
Total Proved	1,688	14,174	153	4,202	80,815	57,634	50,914
Probable	779	6,276	51	1,877	35,875	17,380	13,368
Proved plus Probable	2,467	20,450	204	6,079	116,690	75,014	64,281

2004 Finding and Development Costs

Finding and development costs are a measure of capital efficiency and are calculated by dividing total capital costs for the period by the change in reserves (including revisions) for the same period. Under 51-101, the implied methodology to be used to calculate F&D costs includes incorporating changes in future development capital required to bring the Proved Undeveloped and Probable reserves to production.

Based on total 2004 capital expenditures of $19.6 million and inclusive of future development capital of $3.6 million for proved reserves and $ 7.1 million for proved plus probable reserves, Hawk's finding and development costs were $9.47/boe for Total Proved reserves and $6.96/boe for Total Proved plus Probable reserves.

Undeveloped Land

At December 31, 2004, Hawk had a total of 71,754 (50,677 net) acres of land under title of which 45,287 (31,779 net) acres were undeveloped.

Eighty-three percent (83%) or 37,541 (25,163 net) acres of the undeveloped land was located in Alberta while 17% or 7,746 (6,614 net) acres, was located in Saskatchewan.

2005 Outlook

Since Hawk's inception in April 2003, the Company has been successful in adding value through both drilling and acquisitions. The Company has prudently invested $32.8 million to date creating a company which on December 31, 2004 produced 1,675 boe/d with proved reserves of 4.2 million boe. The Company has also positioned itself with land and seismic to continue the momentum created in 2004.

The Company has set a capital budget for 2005 of $20 million. This budget will result in the drilling of 40 high working interest wells. The majority of these wells will be drilled in Hawk's core areas of Retlaw, Edmonton, Veteran, Chinook and southeast Saskatchewan. To date in 2005, Hawk has drilled five (3.2 net) wells. Hawk plans on spending approximately 20% of its 2005 budget on deeper, higher risk prospects in western Alberta.

Based on drilling success in the fourth quarter of 2004 and the first quarter of 2005, Hawk is increasing its production guidance for 2005 to average 2,000 boe/d with a year-end exit rate of 2,400 boe/d.

Hawk is well positioned to take advantage of the many excellent opportunities available to grow the Company, given its strong balance sheet and prospect inventory. Having transformed from an emerging start-up, into a junior oil and gas producer in 2004, Hawk is continuing its fast-paced growth in 2005.

Management's Discussion and Analysis

Management's discussion and analysis ("MD&A") of the financial condition and the results of operations should be read in conjunction with the audited financial statements and related notes for the year ended December 31, 2004.

Production information is commonly reported in units of barrel of oil equivalent or boe. For the purposes of computing such units, natural gas is converted to equivalent barrels of oil using a conversion factor of six thousand cubic feet to one barrel of oil. The conversion ratio of 6:1 is based on an energy equivalency conversion method, which is primarily applicable at the burner tip. It does not represent equivalent wellhead value for the individual products. Such disclosure of boes may be misleading, particularly if used in isolation.

All amounts are in Canadian dollars unless otherwise stated.

This disclosure contains certain forward-looking estimates that involve substantial known and unknown risks and uncertainties, certain of which are beyond Hawk's control, including the impact of general economic conditions in Canada and the United States; industry conditions; changes in laws and regulations including the adoption of new environmental laws and regulations and changes in how they are interpreted and enforced; increased competition; the lack of availability of qualified personnel or management; fluctuations in commodity prices; foreign exchange or interest rates; stock market volatility and obtaining required approvals of regulatory authorities. Hawk's actual results, performance or achievement could differ materially from those expressed in, or implied by, these forward-looking estimates and, accordingly, no assurances can be given that any of the events anticipated by the forward-looking estimates will transpire or occur, or if any of them do so, what benefits, including the amounts of proceeds, that Hawk will derive therefrom.

The term "cash flow from operating activities" or "cash flow", which is expressed before changes in non-cash working capital, is used by the Company to analyze operating performance, leverage and liquidity. The term "netback", which is calculated as the average unit sales price, less royalties and operating expenses, represents the cash margin for every barrel of oil equivalent sold. These terms do not have any standardized meaning prescribed by the Canadian Generally Accepted Accounting Principles (GAAP) and, therefore, might not be comparable with the calculation of a similar measure for other companies.

Comparability of Prior Period Results

Hawk Energy was incorporated on January 16, 2003 and began operations in April 2003. As such the prior period results may not be comparable.

Production

	Year / Period ended December 31		% Change
	2004	2003	
Natural Gas (mcf/d)	3,932	316	1,144
Oil and NGL's (bbls/d)	433	94	361
NGL's (bbls/d)	13	0	
Total (boe/d)	1,101	147	649

The Company added production during 2004 exclusively through drilling and optimization activities. Sixteen new gas wells were tied in and brought on production in the Retlaw, Edmonton and Veteran areas. These wells have added 6,300 mcfd net to the Company's gas production. Also, five new oil wells have been drilled and placed on production in the Retlaw, Veteran, Lloydminster and southeast Saskatchewan areas. These wells have added 150 bopd net to the Company's oil production. Hawk also divested 70 boe/d of high operating cost southeast Saskatchewan oil production.

Petroleum and Natural Gas Sales ($)

	Year / Period ended December 31		% Change
	2004	2003	
Oil sales	7,210,187	1,060,396	580
Per barrel	45.65	30.86	48
Natural gas sales	8,912,613	571,910	1458
Per mcf	6.21	4.96	25
NGL sales	216,262	2,217	9655
Per barrel	46.93	35.76	31
Total Sales	16,339,062	1,634,523	900

During 2004, Hawk received $45.65 per barrel for its oil production, a 48% increase over the average oil price received in 2003. Hawk's 2004 oil production was comprised of 82% light oil originating from southeast Saskatchewan, where the Company received an average price of $47.30 per barrel; 11% heavy oil originating from Marsden, western Saskatchewan, where the Company received an average price of $29.19 per barrel and 7% from light oil originating from its Veteran, Endiang and Retlaw properties in east central and southern Alberta, where the Company received an average price of $52.74 per barrel. In 2004, the Company received $6.21/mcf for its gas production, a 25% increase over the average gas price received in 2003. Approximately 93% of Hawk's gas was produced from Alberta properties, 4% was produced from western Saskatchewan and 3%, primarily associated gas from the oil production, was produced from southeast Saskatchewan. The Company received $46.93 per barrel for its NGL production. Hawk produced 4,608 barrels of NGL's in conjunction with gas production from eight of its properties.

In 2004, both oil and gas prices were well ahead of prices received in 2003. Oil prices rose to record levels due to supply concerns coupled with surging global demand. Oil supply shocks throughout the past year tightened the global supply situation and confirmed that OPEC had reduced excess capacity. This reduction combined with continued strong global demand led to sustained oil prices which were significantly above historic levels. The high oil price environment had little impact on world-wide demand and also supported natural gas prices throughout the year. West Texas Intermediate (WTI) oil prices averaged US$41.44/bbl, 33% greater than the 2003 average of US31.09/bbl, and ended the year at US$43.45/bbl. Likewise NYMEX natural gas prices averaged US$6.18/mmbtu, 13% greater than the 2003 average of $US5.49/mmbtu, and ended the year at US$6.15/mmbtu. The high oil and gas prices witnessed during 2004 are expected to continue into 2005.

The Company had no hedging contracts during 2004.

Royalties

	Year ended December 31, 2004		Period ended December 31, 2003	
	($)	Royalty Rate (%)	($)	Royalty Rate (%)
Crown	2,832,855	17.3	236,376	14.4
Freehold	1,155,534	7.1	68,867	4.2
Gross Overriding	804,613	4.9	49,934	3.1
Royalty Income	(19,547)	(0.1)	(21,505)	(1.3)
ARTC	(500,000)	(3.1)	(12,009)	(0.7)
Total	4,273,455	26.1	321,663	19.7

Hawk's 2004 gas royalties were 28.2% compared with 20.6% in 2003. Hawk's gas royalties are predominantly Crown and attract the ARTC. In 2004, Hawk's ARTC eligibility exceeded the $500,000 corporate limit, resulting in higher average gas royalties. During 2004, Hawk's oil royalties, which are comprised of Crown, freehold and gross overriding royalties, were 23.4%. Over the same period in 2003, Hawk's oil royalty rate averaged 19.3%. As oil royalty rates in Saskatchewan are rate dependent, Hawk's 2004 increased oil royalty rates reflect higher oil production per well. In 2004, Hawk increased its average oil production rate per well through optimization activities and also divested of low oil rate production. Hawk's average royalty rate for NGL production in 2004 was 33.2% as compared with 30.6% in 2003.

Operating Expenses

	Year ended December 31, 2004		Period ended December 31, 2003	
	($)	($/boe)	($)	($/boe)
Production expense	3,152,326	7.85	423,060	7.89
Processing income	(74,433)	(0.19)	(25,645)	(0.48)
Operating expense	3,077,893	7.66	397,415	7.41
Transportation expense	259,613	0.65	38,803	0.72
Total production expense	3,337,506	8.31	436,218	8.13

During 2004 Hawk's total unit operating cost was $8.31/boe. This compares with the Company's 2003 unit operating cost of $8.13/boe. Hawk's 2004 natural gas expense was $0.77/mcf or $4.64/boe compared with $0.66/mcf for the same period in 2003. The Company's oil and NGL expense in 2004 was $13.71/boe and is further broken down to $9.43/boe for its light oil and NGL production in Alberta, $13.90/boe for its light oil production in southeast Saskatchewan and $15.70/boe for its heavy oil production at Marsden, in western Saskatchewan. At Marsden, production declines account for the increased per unit operating cost as compared with the $6.74/boe reported in 2003. This year's operating costs in southeast Saskatchewan are slightly higher than the $13.58/boe reported in 2003, but are also inclusive of numerous workovers resulting from optimization opportunities which were identified and acted upon in 2004.

Field Netbacks

	Year ended December 31, 2004			Period ended December 31, 2003		
	Oil & NGL Netback ($/bbl)	Gas Netback ($/mcf)	Boe Netback ($/boe)	Oil & NGL Netback ($/bbl)	Gas Netback ($/mcf)	Boe Netback ($/boe)
Sales price	45.68	6.21	40.67	30.87	4.96	30.47
Royalties	(10.83)	(1.75)	(10.64)	(5.95)	(1.02)	(6.00)
Production expense	(13.71)	(0.77)	(8.31)	(9.77)	(0.66)	(8.13)
Field Netback	21.14	3.69	21.72	15.15	3.28	16.34

The Company's field netbacks are derived from subtracting royalties and production expense from the sales price. The Company's field netback increased 33% over 2003.

Recycle Ratio

The recycle ratio is a measure used to evaluate the effectiveness of a company's re-investment program. The ratio measures the efficiency of turning a barrel of oil equivalent of reserves into a new barrel of oil equivalent of production. It accomplishes this by measuring the field netback per barrel of oil equivalent to that year's Proven and Proven plus Probable finding and development costs.

	Year / Period ended December 31	
	2004	2003
Field Netback ($/boe)	21.72	16.34
Proved F&D ($/boe)	9.47	6.72
Proved Recycle Ratio	2.3	2.4
Proved + Probable F&D ($/boe)	6.97	5.48
Proved + Probable Recycle Ratio	3.1	3.0

General and Administrative Expense (G&A)

	Year ended December 31, 2004		Period ended December 31, 2003	
	($)	($/boe)	($)	($/boe)
Gross G&A Expense	1,260,942	3.14	608,663	11.34
Capitalized Overhead	(422,645)	(1.05)	(193,124)	(3.60)
Net G&A Expense	838,297	2.09	415,539	7.74

The Company's Gross G&A Expense was $1,260,942, an increase of 107% over the same period in 2003. The increase is directly attributable to a higher production base as well as the G&A expense being incurred over a full year as opposed to a partial year in 2003. Hawk capitalized the portion of its G&A expense which was directly related to the geological and geophysical work performed to generate exploration prospects. During 2004, the Company's net G&A was $838,297 or $2.09/boe. On a unit basis

this represents a 73% reduction in comparison to 2003. The Company's G&A expenses are expected to continue to decrease on a per boe basis during 2005 as production is increased.

Interest and Stock Based Compensation Expense

The Company incurred a net interest expense of $37,025 in 2004 compared to net interest income of $134,621 generated in 2003. The interest expense was higher in 2004 because the Company periodically utilized its credit facility.

Hawk's stock based (non-cash) compensation expense was $604,598 or $1.50 per boe in 2004 compared to $77,764 or $1.45 per boe in 2003. These values were calculated using the Black-Scholes option-pricing model. The assumptions used in the Black-Scholes model were expected volatility of 150%, risk free interest rate of 4% and time to exercise of 3 years.

Depletion, Amortization and Accretion Expense

	Year ended December 31, 2004		Period ended December 31, 2003	
	($)	($/boe)	($)	($/boe)
Depletion Expense	2,296,010	5.72	245,555	4.58
Amortization Expense	679,006	1.69	64,920	1.21
Accretion Expense	121,639	0.30	1,612	0.03
Total	3,096,655	7.71	312,087	5.82

Hawk follows the full cost method of accounting as described in the CICA's accounting guideline 16, "oil and gas accounting – Full Cost". Accordingly, the cost of all wells, both successful and unsuccessful, are added to the Company's capital base and are depleted at the rate of production over the remaining proven reserves as determined by the December 31, 2004 Gilbert Laustsen Jung report. During 2004, the Company's Depletion, Amortization and Accretion Expense was $3,096,655 or $7.71/boe verses $5.82/boe in 2003. The majority of the increase is attributable to the higher costs of adding reserves in 2004.

Income Taxes

On June 9, 2003, the Canadian government substantially enacted federal income tax changes for the oil and natural gas sector as it had outlined in its 2003 budget. Resource tax rates will decline from the current 27 percent to 21 percent by 2007. Concurrently, the 100 percent deductibility of the resource allowance is being phased out and Crown charges will become 100 percent deductible.

During 2004, Hawk incurred current taxes of $236,257 and made a provision for future income taxes of $1,407,556. The current taxes are the result of the Saskatchewan tax and resource surcharge.

The Company had the following income tax pools available at December 31, 2004:

	Annual Deduction Available	Tax Pools
Canadian exploration expenses (CEE)	100%	$3,305,197
Canadian development expenses (CDE)	30%	1,624,219
Canadian oil and gas property expenses (COGPE)	10%	5,626,954
Undepreciated capital costs	25%	5,492,205
Share Issue Cost	100%	1,207,523
Non-capital losses carried forward	100%	32,844
Total		$17,288,942

Cash Flow from Operations

	Year ended December 31, 2004		Period ended December 31, 2003	
	$	$/boe	$	$/boe
Petroleum and natural gas revenue	16,339,062	40.67	1,634,523	30.46
Royalties, net of ARTC	(4,273,455)	(10.63)	(321,663)	(6.00)
Net Interest (expense)	(37,025)	(0.09)	134,621	2.51
Operating costs and transportation	(3,337,506)	(8.31)	(436,218)	(8.13)
General and administrative	(838,297)	(2.09)	(415,539)	(7.74)
Current taxes	(236,257)	(0.59)	(37,726)	(0.70)
Cash flow from Operations	7,616,522	18.96	557,998	10.40

In 2004, the Company generated cash flow from operating activities of $7,616,522 ($0.50 per diluted share). This represents an increase of 1,265% verses 2003. The increase resulted from increased production rates and stronger commodity prices.

Net Income and Cash Flow from Operating Activities

Net Income is derived from cash flow from operating activities less stock based compensation, depletion, amortization & accretion expense and future income tax. There has been a substantial increase in net income due to production growth and to a lesser extent an increase in the commodity price.

	Year ended December 31, 2004		Period ended December 31, 2003	
	$	$/ diluted share	$	$/ diluted share
Cash flow from operating activities	7,616,522	0.50	557,998	0.07
Less: Stock based compensation	604,598	0.04	77,764	0.01
Depletion, amortization & Accretion expense	3,096,655	0.20	312,087	0.04
Future income taxes	1,407,556	0.09	146,556	0.02
Net income (loss)	2,507,713	0.17	21,591	0.00

Capital Expenditures ($)

	Year ended December 31, 2004	Period ended December 31, 2003
Land and lease retention	2,342,092	5,366,344
Seismic	2,279,769	1,041,249
Drilling and completions	11,336,462	3,802,262
Geological and geophysical salaries capitalized	422,645	193,124
Facilities	4,524,421	2,716,116
Corporate assets*	6,546	14,687
Total Gross Expenditures	20,911,935	13,133,782
Dispositions	(1,255,581)	nil
Total Net Expenditures	19,646,354	13,133,782

*Corporate assets include office improvements, equipment, computer hardware and software.

The Company incurred gross capital expenditures of $20,911,935 ($19,646,354 net after proceeds from property dispositions) in 2004 drilling a total of 40 (32.8 net) wells.

Liquidity and Capital Resources

On December 31, 2004, the Company had no debt and a working capital deficit of $4,248,184.

On June 24, 2004, the Company entered into a revolving, reducing demand credit facility agreement with a bank for $12,000,000 at an interest rate of prime plus one-quarter percent per year. Starting July 31, 2004, the amount of the facility available was reduced by $600,000 per month. On December 31, 2004, the Company had zero drawn from this credit facility.

On January 20, 2005, the Company entered into a revolving, reducing demand credit facility agreement with a bank for $14,000,000 at an interest rate of prime plus one-quarter percent per year. Starting February 28, 2005, the amount of the facility available will be reduced by $450,000 per month.

2005 Capital Budget

Hawk's Board of Directors approved a $20.0 million 2005 capital budget which will result in the drilling of approximately 40 high working interest wells in 2005. The majority of these wells will be drilled in Hawk's core areas of Retlaw, Edmonton, Veteran, Chinook and southeast Saskatchewan. Hawk plans on spending approximately 20% of its 2005 budget on deeper, higher risk prospects in western Alberta.

Contractual Obligations

Pursuant to the May 22, 2003, initial public offering, the Company issued flow-through shares, whereby the Company is required to incur $9,250,000 of qualifying flow-through expenditures. To the period ended December 31, 2004, Hawk has incurred sufficient qualifying expenditures to satisfy its flow-through obligation.

The Company is also committed to a minimum annual lease payment of $24,850 under a rental agreement for office space until September 2005.

Dividend Policy

Hawk pays no dividends as all cash generated from operations is used to finance the drilling and acquisition activities of the Company.

Quarterly Results ($)

The following table summarizes certain quarterly financial information relating to the Company.

Quarter Ended	Petroleum and Natural Gas Revenue	Cash Flow (loss)	Net Income (loss)
December 31, 2004	6,238,090	2,846,830	1,046,223
September 30, 2004	4,169,515	2,062,758	632,357
June 30,2004	3,345,385	1,540,429	449,721
March 31, 2004	2,586,071	1,166,507	408,841
December 31, 2003	1,334,781	475,015	55,482
September 30, 2003	249,103	118,139	1,950
June 30, 2003	50,639	(24,406)	(25,091)
March 31, 2003	-	(10,750)	(10,750)

Summary of Fourth Quarter Information ($)

	Quarter ended December 31		% Change
	2004	2003	
Production (boe/d)	1,576	465	239
Revenue	6,238,090	1,334,781	367
Per boe	43.03	31.20	38
Royalty	1,853,759	264,868	600
Per boe	12.79	6.19	107
Operating Costs	1,145,089	381,708	200
Per boe	7.90	8.92	(11)
G&A Expense	287,846	223,580	29
Per boe	1.98	5.23	(62)
Net Interest (Income)	42,170	(48,116)	
Per boe	0.29	(1.12)	
Current Tax	62,396	37,726	65
Per boe	0.43	0.88	(51)
Cash Flow	2,846,830	475,015	499
Per boe	19.64	11.10	77

In comparing the fourth quarter of 2004 with the same period in 2003:

- production increased by 239% due to a successful 2004 drilling and optimization program;
- per unit revenue received increased by 38% due to stronger oil and natural gas prices;
- per unit royalty increased by 107% as a result of increased prices received and as a result of a higher percentage of gas (71% in 2004 verses 40% in 2003) which attracts a higher royalty;
- per unit G&A decreased by 62% as a result of increased production in 2004;
- per unit cash flow increased by 77% , largely as a result of higher commodity prices, lower operation costs and lower G&A costs.

2004 Stock Price and Trading Activity

Class A	1st Q	2nd Q	3rd Q	4th Q	2004
High	$3.10	$3.50	$3.40	$3.90	$3.90
Low	2.25	2.70	2.40	3.25	2.25
Close	2.75	3.20	3.35	3.59	3.59
Volume	648,677	708,734	218,300	541,702	2,117,413

Class B	1st Q	2nd Q	3rd Q	4th Q	2004
High	$5.75	$7.30	$6.40	$7.25	$7.30
Low	5.10	5.31	6.01	6.20	5.10
Close	5.31	6.01	6.20	7.25	7.25
Volume	11,430	19,930	4,450	18,470	54,280

Critical accounting policies

Hawk's accounting policies are described in note 2 to the consolidated financial statements. Certain accounting policies are identified as critical accounting policies because they form an integral part of Hawk's financial position and also require management to make judgments and estimates based on conditions and assumptions that are inherently uncertain. These accounting policies could result in materially different results should the underlying assumptions or conditions change.

Management assumptions are based on Hawk's historical experience, management's experience, and other factors that, in management's opinion, are relevant and appropriate. Management assumptions may change over time as further experience is gained or as operating conditions change.

Business risks

The oil and natural gas industry is subject to numerous risks that can affect the amount of cash flow from operating activities and the ability to grow. These risks include but are not limited to:

- fluctuations in commodity price, exchange rates and interest rates;
- government and regulatory risk in respect of royalty and income tax regimes;
- operational risks that may affect the quality and recoverability of reserves;
- geological risk associated with accessing and recovering new quantities of reserves;
- transportation risk in respect of the ability to transport oil and natural gas to market;
- capital markets risk and the ability to finance future growth;
- weather risk in respect of the ability to enter and drill wells in some wet areas;
- gas processing risk in respect of the ability to process gas into third party owned facilities; and
- regulatory risk in respect of the ability to license and produce sour wells in populated areas.

Hawk strives to minimize these business risks by:

- employing management and technical staff with extensive industry experience;
- adhering to a strategy of exploring, developing, acquiring and optimizing quality, low-risk reserves in areas where we have technical and operational expertise;
- developing a diversified, balanced asset portfolio that generally offers developed operational infrastructure, year-round access and close proximity to markets;
- maintaining a low cost structure to maximize cash flow and profitability;
- maintaining prudent financial leverage and developing strong relationships with the investment community and capital providers;
- adhering to strict guidelines and reporting requirements with respect to environmental, health and safety practices;
- maintaining an adequate level of property, casualty, comprehensive and directors' and officers' insurance coverage;
- scheduling the drilling of wells in wet areas in the winter months;
- securing gas processing agreements before gas wells are drilled; and
- investigating anticipated well licensing difficulties before land is purchased.

Changes in accounting policy

The following two accounting policy changes in accounting policy were adopted by Hawk in 2004.

Asset retirement obligation (ARO)

The new Canadian Institute of Chartered Accountants ("CICA") standard for Asset Retirement Obligations changes the method of accounting for certain site restoration costs. Under the new standard, the fair value of asset retirement obligations are recorded as liabilities on a discounted basis, when incurred. The value of the related assets are increased by the same amount as the liability and depreciated over the useful life of the asset. Over time the liability is adjusted for the change in present value of the liability or as a result of changes to either the timing or amount of the original estimate of undiscounted future cash flows.

Asset retirement obligation requires that management make estimates and assumptions regarding future liabilities and cash flows involving environmental reclamation and remediation. Such assumptions are inherently uncertain and subject to change over time due to factors such as historical experience, changes in environmental legislation or improved technologies. Changes in underlying assumptions, based on the above noted factors, could have a material impact on Hawk's future financials results.

Hedging relationships

CICA accounting guideline 13, "Hedging relationships" is effective for fiscal periods beginning on or after July 1, 2003. This accounting guideline addresses the identification, designation, documentation and effectiveness of hedging relationships, for the purpose of applying hedge accounting. In addition, it establishes criteria for discontinuing the use of hedge accounting. Under accounting guideline 13, hedging transactions must be documented and it must be demonstrated that the hedges are sufficiently effective to continue accrual accounting for positions hedged with derivatives. Hawk did not engage in any hedging activities in 2004. During 2005, the Company will assess such strategies to minimize the price risk associated with the volatility of commodity prices.

Outlook

Since Hawk's inception in April 2003, the Company has been successful in adding value through both drilling and acquisitions. The Company has prudently invested $32.8 million to date creating a company which on December 31, 2004 produced 1,675 boe/d with proved reserves of 4.2 million boe. The Company has also positioned itself with land and seismic to continue the momentum created in 2004.

The Company has set a capital budget for 2005 of $20 million. This budget will result in the drilling of 40 high working interest wells. The majority of these wells will be drilled in Hawk's core areas of Retlaw, Edmonton, Veteran, Chinook and southeast Saskatchewan. To date in 2005, Hawk has drilled five (3.2 net) wells. Hawk plans on spending approximately 20% of its 2005 budget on deeper, higher risk prospects in western Alberta.

Based on drilling success in the fourth quarter of 2004 and the first quarter of 2005, Hawk is increasing its production guidance for 2005 to average 2,000 boe/d with a year-end exit rate of 2,400 boe/d.

Hawk is well positioned to take advantage of the many excellent opportunities available to grow the Company, given its strong balance sheet and prospect inventory. Having transformed from an emerging start-up, into a junior oil and gas producer in 2004, Hawk is continuing its fast-paced growth in 2005.

Hawk is a Calgary-based emerging oil and gas company engaged in the exploration, development and exploitation of oil and gas reserves in western Canada. Hawk's goal is to generate sustainable and profitable per share growth in earnings, cash flow from operations and reserves by aggressively pursuing focused exploration, exploitation, development and acquisition opportunities in the Company's focus areas. Hawk's Class A and Class B shares trade on the TSX Venture Exchange under the symbols "HK.A" and "HK.B" respectively.

Additional information is filed on SEDAR at www.sedar.com.

This MD&A was written on March 22, 2005.

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Dave Bonnar, P. Geol.
Vice President, Corporate Development
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John Wright, P. Eng., CFA[*+#]
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President & Chief Executive Officer

Erik DeWiel, P. Land
Vice President, Land and Corporate Secretary

Randy Deobald, P. Geol.
Vice President, Exploration

Dave Bonnar, P. Geol.
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M.H.(Mike) Shaikh, C.A.
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+ members of the reserve committee

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Calgary, Alberta

STOCK EXCHANGE LISTING

The TSX Venture Exchange
Trading Symbol: HK.A & HK.B

ENGINEERING CONSULTANTS

Gilbert Laustsen Jung Associates Ltd.
Calgary, Alberta

HAWK ENERGY CORP.

Financial Statements

December 31, 2004 and 2003

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Period Ended December 31, 2004 and 2003

FINANCIAL STATEMENTS

HAWK ENERGY CORP.

Balance Sheet

December 31

(All amounts in Canadian Currency)

	2004	2003 *(Restated - Note 6)*
ASSETS		
Current		
Cash	$ 491,606	$ 4,670,531
Accounts receivable	3,904,957	1,693,876
Prepaid expenses	81,669	120,305
	4,478,232	6,484,712
Property, plant and equipment, net *(Note 3)*	31,093,025	14,083,358
	$ 35,571,257	$ 20,568,070
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Bank indebtedness *(Note 4)*	$ -	$ 50,000
Accounts payable and accrued liabilities	8,529,032	3,215,417
Income taxes payable	197,384	37,726
	8,726,416	3,303,143
Future income taxes *(Note 5)*	4,400,030	3,138,694
Asset retirement obligations *(Note 6)*	1,711,631	1,261,663
	14,838,077	7,703,500
Shareholders' equity		
Share capital *(Note 7)*	17,521,514	12,765,215
Contributed surplus *(Note 7(b))*	682,362	77,764
Retained earnings	2,529,304	21,591
	20,733,180	12,864,570
	$ 35,571,257	$ 20,568,070

Commitments *(Note 9)*

Approved on behalf of the Board

________________________ *Director*

________________________ *Director*

See Accompanying Notes

HAWK ENERGY CORP.

Statement of Operations and Retained Earnings (Deficit)

(All amounts in Canadian Currency)

	For the Year Ended December 31, 2004	For the Period January 16, 2003 to December 31, 2003 *(Restated - Note 6)*
Revenue		
Petroleum and natural gas sales	$ 16,339,062	$ 1,634,523
Royalties	(4,273,455)	(321,663)
Interest income	45,371	135,211
	12,110,978	1,448,071
Expenses		
Operating	3,077,893	397,415
Transportation	259,613	38,803
General and administrative	838,297	415,539
Stock based compensation *(Note 7(b))*	604,598	77,764
Interest	82,396	590
Depletion, amortization and accretion	3,096,655	312,087
	7,959,452	1,242,198
Income before income taxes	4,151,526	205,873
Provision for income taxes *(Note 5)*		
Current	236,257	37,726
Future	1,407,556	146,556
	1,643,813	184,282
Net income	2,507,713	21,591
Retained earnings (deficit), beginning of period	(12,753)	-
Adjustment for change in accounting policy *(Note 6)*	34,344	-
	21,591	-
Retained earnings, end of period	$ 2,529,304	$ 21,591
Income per share, basic and diluted *(Note 10)*	$ 0.17	$ -

See Accompanying Notes

HAWK ENERGY CORP.

Statement of Cash Flows

(All amounts in Canadian Currency)

	For the Year Ended December 31, 2004	For the Period January 16, 2003 to December 31, 2003 *(Restated - Note 6)*
Cash provided by operating activities		
Net income	$ 2,507,713	$ 21,591
Items not affecting cash:		
Stock based compensation	604,598	77,764
Depletion, amortization and accretion	3,096,655	312,087
Future income taxes	1,407,556	146,556
Cash flow from operating activities before changes in non-cash working capital	7,616,522	557,998
Changes in non-cash working capital:		
Accounts receivable	(1,741,828)	(1,693,876)
Prepaid expenses	38,636	(120,305)
Accounts payable and accrued liabilities	2,461,299	565,834
Income taxes payable	159,658	37,726
	917,765	(1,210,621)
	8,534,287	(652,623)
Cash used in investing activities		
Additions of property, plant and equipment	(20,911,935)	(13,133,782)
Proceeds on disposition of property, plant and equipment	1,255,581	-
Changes in non-cash working capital for investing activities	2,383,064	2,649,583
	(17,273,290)	(10,484,199)
Cash provided by financing activities		
Issuance of share capital	4,999,999	17,250,000
Share issue cost	(389,921)	(1,492,647)
	4,610,078	15,757,353
(Decrease) increase in cash and cash equivalents	(4,128,925)	4,620,531
Cash and cash equivalents, beginning of period	4,620,531	-
Cash and cash equivalents, end of period	$ 491,606	$ 4,620,531
Cash and cash equivalents consists of:		
Cash	$ 491,606	$ 4,670,531
Bank indebtedness	-	(50,000)
	$ 491,606	$ 4,620,531
Supplementary information		
Interest paid	$ 46,506	$ (590)
Income taxes paid	$ 76,599	$ -

See Accompanying Notes

HAWK ENERGY CORP.

Notes to Financial Statements

For the Year Ended December 31, 2004

(All amounts in Canadian Currency)

1. **Incorporation and operations**

Hawk Energy Corp. (the "Company") was incorporated under the Business Corporations Act (Alberta) on January 16, 2003. The principal business of the Company is exploration, exploitation, development and production of oil and natural gas reserves. All activity is conducted in Western Canada and comprises a single business segment.

2. **Accounting policies**

Property, plant and equipment

Petroleum and natural gas (P&NG) properties and production equipment

The Company follows AcG 16 "Full Cost Accounting", whereby all costs associated with the exploration for and development of petroleum and natural gas reserves are capitalized and charged against earnings as described below. Capitalized costs include lease acquisition costs, the costs of geological and geophysical activities, the costs of drilling both productive and non-productive wells, carrying charges of non-producing properties and overhead costs directly related to exploration and development activities.

Proceeds from the disposal of properties are applied as a reduction of the cost of the remaining assets, except when such a disposal would alter the rate of depletion by more than 20%, in which case a gain or loss on disposal is recorded.

Depletion of oil and gas properties and production equipment is provided using the unit of production method which is based upon gross proven reserve volumes. For this purpose, gas volumes are converted to equivalent oil volumes based upon the relative energy content where six thousand cubic feet of gas equates to one barrel of oil.

Costs of acquisition and evaluation of unproved properties are initially excluded from the depletion calculation. The Company periodically reviews costs associated with unproved properties to determine whether they are likely to be recovered. When such costs are not likely to be recovered, or when proved reserves are found to be attributable to the properties, the values of these properties are moved to the depletion pool.

The Company places a limit on the aggregate carrying value of property, plant and equipment. Impairment is recognized if the carrying amount of the property, plant and equipment exceeds the sum of the undiscounted cash flows expected to result from the Company's proved reserves. Cash flows are calculated based on third party quoted forward prices. Upon recognition of impairment, the Company would measure the amount of impairment by comparing the carrying amounts of the property, plant and equipment to an amount equal to the estimated net present value of future cash flows from proved plus risked probable reserves. The Company's risk-free interest rate is used to arrive at the net present value of the future cash flows. Any excess carrying value above the net present value of the Company's future cash flows would be recorded as a permanent impairment.

HAWK ENERGY CORP.

Notes to Financial Statements

For the Year Ended December 31, 2004

(All amounts in Canadian Currency)

Furniture and equipment

Furniture and equipment is recorded at cost. Amortization is provided thereon at a rate of 20% per annum on a declining balance basis.

Asset retirement obligation

The Company follows the Canadian Institute of Chartered Accountants standard for Asset Retirement Obligation ("ARO"). Under this standard, the fair value of a liability for an ARO is recorded in the period where a reasonable estimate of the fair value can be determined. When the liability is recorded, the carrying amount of the related asset is increased by the same amount of the liability. The asset recorded is depleted over the useful life of the asset. Additions to asset retirement obligations due to the passage of time are recorded as accretion expense. Actual expenditures incurred are charged against the obligation.

Joint ventures

Substantially all of the Company's petroleum and natural gas activities are conducted jointly with others and, accordingly, the accounts reflect only the Company's proportionate interest in such activities.

Income taxes

The liability method is used in accounting for income taxes. Under this method, future tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities, and measured using the substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period in which the change occurs.

Flow-through shares

The Company will from time to time issue flow-through shares to finance a portion of its capital expenditure program. Pursuant to the terms of flow-through share agreements, the tax deductions associated with the expenditures are renounced to the subscribers. Accordingly, share capital will be reduced and a future tax liability will be recorded equal to the estimated amount of the future income tax liability of the Company as a result of the renunciations, when the renunciations are made.

Stock options

The Company has a stock option plan, which is described in note 7. Consideration paid by directors, officers and key employees and consultants on the exercise of stock options is credited to share capital together with the amount previously recognized in contributed surplus.

Awards of stock options to employees and non-employees are accounted for in accordance with the fair value method of accounting for stock-based compensation. The fair value of stock options is determined using the Black-Scholes option pricing model. Under the fair value method, the amount to be recognized as expense is determined at the time the options are issued and is deferred and recognized in earnings over the vesting period of the options with a corresponding increase in contributed surplus.

HAWK ENERGY CORP.

Notes to Financial Statements

For the Year Ended December 31, 2004

(All amounts in Canadian Currency)

Revenue recognition

Revenues from petroleum and natural gas sales are recognized when title passes from the Company to its customer.

Per share data

The Company utilizes the treasury stock method in the determination of diluted per share amounts. Under this method, the diluted weighted average number of shares is calculated assuming the proceeds that arise from the exercise of outstanding, in-the-money options are used to purchase common shares of the Company at their average market price for the period. Unrecognized stock-based compensation form current grants is treated as proceeds used to purchase common shares.

Measurement uncertainty

The amounts recorded for depletion and amortization of oil and natural gas properties and equipment and the provision for asset retirement obligations are based on estimates. The ceiling test is based on estimates of proved reserves, production rates, oil and gas prices, future costs and other relevant assumptions. By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of changes in such estimates in future periods could be significant.

3. **Property, plant and equipment**

	2004			2003
	Cost	Accumulated amortization	Net book value	Net book value
P&NG properties and production equipment	$ 34,355,658	$ 3,278,065	$ 31,077,593	$ 14,071,608
Furniture and equipment	21,235	5,803	15,432	11,750
	$ 34,376,893	$ 3,283,868	$ 31,093,025	$ 14,083,358

The Company has capitalized $422,645 (2003 - $193,124) general and administrative costs during the year ended December 31, 2004.

Unproved property costs of $3,613,282 (2003 - $1,074,200) and estimated salvage value of $1,377,950 (2003 – nil) have been deducted from and future capital cost of $3,554,000 (2003 – Nil) has been added to costs subject to depletion and amortization for the year ended December 31, 2004.

HAWK ENERGY CORP.

Notes to Financial Statements

For the Year Ended December 31, 2004

(All amounts in Canadian Currency)

3. **Property, plant and equipment (continued)**

An impairment test calculation was performed on the Company's property, plant and equipment at December 31, 2004 in which the estimated undiscounted future net cash flows based on estimate future prices associated with the proved reserves exceeded the carrying amount of the Company's petroleum and natural gas properties.

The following table outlines prices used in the impairment test at December 31, 2004:

Year	Oil ($/bbl)	Gas ($/Mcf)	NGL ($/bbl)
2005	$43.86	$6.35	$39.76
2006	41.91	6.13	37.33
2007	40.09	5.96	35.63
2008	38.03	5.81	33.86
2009	35.80	5.81	31.78
2010	35.25	5.82	30.74
2011	35.21	5.82	30.75
2012	35.24	5.83	30.73
2013	35.71	5.94	31.25
2014	35.95	6.03	32.14
2015	36.30	6.14	32.50
2016	36.95	6.30	33.08

4. **Bank indebtedness**

On June 24, 2004, the Company entered into a revolving reducing demand credit facility agreement with a bank for $12,000,000 at an interest rate of prime plus one-quarter percent per year. Starting July 31, 2004, the amount of the facility available was reduced by $600,000 per month. This credit facility is collateralized by a general assignment of book debts and a $25,000,000 debenture with a floating charge over all assets of the Company and will be reviewed periodically. As at December 31, 2004, no amount was drawn on the bank facility except for a $20,000 letter of guarantee issued to the Government of Saskatchewan which expires February 11, 2005. This letter of guarantee will be renewed periodically until the wells in Saskatchewan are abandoned. As of year end, the Company's guarantees were negligible.

Subsequent to year end, the Company increased its demand credit facility to $14,000,000 effective January 20. 2005. Starting February 28, 2005, the amount of facility available will be reduced by $450,000 per month.

HAWK ENERGY CORP.

Notes to Financial Statements

For the Year Ended December 31, 2004

(All amounts in Canadian Currency)

5. **Income taxes**

The liability for future income taxes on the Company's balance sheet is comprised of the following temporary differences:

	2004	2003
Future income tax liabilities		
Property, plant and equipment	$ 5,482,608	$ 4,231,069
Future income tax assets		
Share issue costs	(456,938)	(446,848)
Asset retirement obligation	(612,512)	(486,390)
Non-capital losses carried forward	(13,128)	(159,137)
	$ 4,400,030	$ 3,138,694

The income tax provision differs from the expected amount computed by applying the Canadian combined Federal and Provincial income tax rate of 40.97% (2003 – 40.75%) as follows:

	2004	2003
Computed "expected" income tax expense	$ (1,700,880)	$ (83,893)
Add back:		
Stock based compensation	(247,704)	(29,939)
Non-deductible Crown charges	(901,186)	(83,129)
Non-deductible meals and entertainment	(5,874)	(2,245)
Deduct:		
ARTC	204,850	4,190
Resource allowance	845,874	9,240
Saskatchewan capital tax	30,138	4,718
Change in tax rate and other	367,226	34,502
	(1,407,556)	(146,556)
Large Corporation and Saskatchewan tax		
Large corporation tax	-	(13,032)
Saskatchewan tax and resource surcharge	(236,257)	(24,694)
	$ (1,643,813)	$ (184,282)

As of year end, the Company has tax pools as follows:

	2004	2003
Undepreciated capital cost	$ 5,492,205	$ 2,403,530
Canadian exploration expenses	3,305,197	258,975
Canadian development expenses	1,624,219	227,276
Canadian oil and gas property expenses	5,626,954	4,851,763
Share issue costs	1,207,523	1,194,117
Non-capital losses carried forward	32,844	401,659
	17,288,942	9,337,320
Less tax pools renounced but not incurred	-	(4,396,340)
	$ 17,288,942	$ 4,940,980

HAWK ENERGY CORP.

Notes to Financial Statements

For the Year Ended December 31, 2004

(All amounts in Canadian Currency)

6. **Asset retirement obligations**

In 2004, the Company adopted the recommendations of the Canadian Institute of Chartered Accountants on accounting for asset retirement obligations. These recommendations replaced the previous policy on future site restoration, and as a result, have been treated as a change in accounting policy. The Company adopted this policy retroactively with the restatement of the 2003 financial statements. Implementation of this accounting standard did not affect the Company's cash flow or liquidity.

The asset retirement obligation is initially recorded at the estimated fair value as a long-term liability with a corresponding increase to property, plant and equipment. This fair value is determined through a review of engineering studies, industry guidelines, and management's estimate on a site by site basis. The depletion and amortization of property, plant and equipment is allocated to expense on the unit-of-production basis. The liability is increased each reporting period for the fair value of any new future site reclamation costs and the corresponding accretion on the original provision. The accretion is charged to earnings in the period incurred. The provision will also be revised for any changes to timing related to cash flows or undiscounted reclamation costs. Actual expenditures incurred for the purpose of dismantlement, removal, abandonment and site reclamation are charged to the asset retirement obligation to the extent that the liability exists on the balance sheet. Differences between the actual costs incurred and the fair value of the liability recorded are recognized to earnings in the period incurred.

The previously reported 2003 amounts have been restated due to the retroactive application of this new standard. The effect of this change on the January 1, 2004 balance sheet was an increase in property, plant and equipment of $1,255,224 and the recognition of an asset retirement obligation of $1,261,663. The change in accounting for asset retirement obligations as compared to the site restoration approach resulted in an increase in retained earnings of $34,344 and an increase in future income tax liability of $13,070. The following table reconciles the asset retirement obligation associated with the retirement of petroleum and natural gas properties:

Asset retirement obligation, January 16, 2003	$ -
Liabilities incurred	1,258,428
Accretion expense	3,235
Asset retirement obligation, December 31, 2003	1,261,663
Liabilities incurred	328,329
Accretion expense	121,639
Asset retirement obligation, December 31, 2004	$ 1,711,631

The Company estimates the undiscounted cash flows related to asset retirement obligations, adjusted for inflation, to be incurred over the estimated reserve life of the underlying assets to total approximately $4,150,953. The fair value at December 31, 2004 is $1,711,631 using a discount rate of eight percent and an inflation rate of two percent. The expected period until settlement ranges from 2 years to 25 years.

HAWK ENERGY CORP.

Notes to Financial Statements

For the Year Ended December 31, 2004

(All amounts in Canadian Currency)

7. **Share capital**

(a) Authorized
Unlimited Class A common voting shares
Unlimited Class B common voting shares

Issued

	Number of Shares	Amount
Class A common shares		
For cash as initial private placement	4,000,000	$ 1,000,000
Issuance of flow through shares	3,700,000	925,000
Share issuance	3,500,000	7,000,000
Share issue cost, net of tax effect	-	(313,918)
Tax effect on flow through shares	-	(356,125)
Class A common shares, as of December 31, 2003	11,200,000	8,254,957
Share issuance	1,785,714	4,999,999
Share issue cost, net of tax effect	-	(243,700)
Class A common shares, as of December 31, 2004	12,985,714	13,011,256
Class B common shares		
Issuance of flow-through shares	832,500	8,325,000
Share issue cost, net of tax effect	-	(609,617)
Tax effect on flow-through shares	-	(3,205,125)
Class B common shares, as of December 31, 2003 and December 31, 2004	832,500	4,510,258
Balance, end of period		$ 17,521,514

As of year end, no shares were held in escrow. The Class B shares are convertible at the option of the Company at any time after June 30, 2006 and before June 30, 2008 into Class A shares. The conversion is calculated by dividing $10 by the greater of $1 and the then current market price of Class A shares. If conversion has not occurred by the close of business on June 30, 2008, the Class B shares become convertible at the option of the shareholder into Class A shares on the same basis. Effective August 1, 2008, all remaining Class B shares will be deemed to be converted into Class A shares on the same basis.

Pursuant to the May 22, 2003 public offering prospectus, the Company offered for sale a maximum of 9,250 units through a prospectus offering. Each $1,000 unit consisted of 400 Class A flow-through shares at $0.25 per share and 90 Class B flow-through shares at $10 per share. Consequently, the Company issued 3,700,000 flow-through Class A common shares and 832,500 Class B common shares and agreed to incur $9,250,000 qualifying flow-through expenditures. Pursuant to the terms of flow-through share agreements, the tax deductions associated with the expenditures are renounced to the subscribers. As of year end, the Company has incurred all qualifying expenditures totaling $9,250,000.

HAWK ENERGY CORP.

Notes to Financial Statements

For the Year Ended December 31, 2004

(All amounts in Canadian Currency)

7. **Share capital** *(continued)*

b) Stock options

The Company has a Stock Option Plan that is granted by the board of directors to directors, officers, employees of and consultants to the Company. Under the terms of the plan, the Company has reserved an amount of Class A shares for options equal to 10% of the issued and outstanding Class A shares. Options granted under the Plan will have an exercise price which is not less than the price allowed by regulatory authorities, will be non-transferable and will be exercisable for a period not to exceed five years. The options will vest one-third on each of the first, second and third anniversaries of the date of grant. No one optionee is permitted to hold options entitling such optionee to purchase more than 5% of the issued and outstanding Class A shares.

	For the Year Ended December 31, 2004		January 16, 2003 to December 31, 2003	
	Number of Options	Weighted Average Exercise	Number of Options	Weighted Average Exercise
Outstanding, beginning of period	770,000	$ 0.35	-	$ -
Granted	522,500	2.76	770,000	0.35
Cancelled	(15,000)	0.35	-	-
Outstanding, end of period	1,277,500	1.34	770,000	0.35
Exercisable, end of period	251,677	$ 0.35	-	$ -

Since January 16, 2003, the Company calculated the non-cash compensation expense using the Black-Scholes option-pricing model based on the following assumptions:

Date of Grant	Number of Options Granted (Net)	Expected Volatility	Risk free Interest Rate	Time to Exercise (Years)	Fair Value of Granted Options
June 6, 2003	755,000	150%	4%	3	$ 218,950
January 6, 2004	310,000	150%	4%	3	659,153
March 19, 2004	30,000	150%	4%	3	58,881
September 9, 2004	182,500	150%	4%	3	462,674
					1,399,658
Stock based compensation expense recognized in 2003					(77,764)
Stock based compensation expense recognized in 2004					(604,598)
Amount for future recognition					$ 717,296

8. **Related party transaction**

On August 31, 2004, the Company disposed of oil and gas properties, through a marketed competitive bid process, to a corporation owned by persons related to an officer of the Company for an exchange amount of $263,000.

9. **Commitments**

The Company is committed to a minimum annual lease payment of $24,850 under a rental agreement for office space until September 2005.

HAWK ENERGY CORP.

Notes to Financial Statements

For the Year Ended December 31, 2004

(All amounts in Canadian Currency)

10. Per share data

Basic per share data per Class A and Class B shares is based upon the weighted average number of Class A shares and the weighted average number of Class B shares outstanding during the period. For the purpose of per share data calculation, it is assumed that the Class B shares are converted into Class A shares using the December 31, 2004 trading price of $3.59 (December 31, 2003 - $2.85). Diluted per share data is based upon the weighted average number of Class A and Class B shares outstanding during the period after giving effect to the exercise of the share options. The total weighted average number of Class A and Class B shares are as follows:

	For the year ended December 31, 2004	For the period ended December 31, 2003
Weighted average number of Class A shares	12,109,980	5,487,965
Deemed conversion of Class B shares to Class A shares (Weighted average number of Class B shares times $10 divided by period end trading price)		
832,500 x $10/$3.59 (2003- 498,546 x $10/$2.85)	2,318,942	1,749,284
Equivalent Class A Basic shares	14,428,922	7,237,249
Equivalent Class A Diluted shares	15,161,170	7,896,594

11. Financial instruments

The Company's financial instruments consist of accounts receivable and accounts payable and accrued liabilities. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments. The fair values of financial instruments that are included in the balance sheet approximate their carrying amount due to the short-term maturity or the floating rate nature of those instruments.

12. Comparative figures

Certain comparative figures have been reclassified to conform with current year's presentation.